

MICROSOFT CORPORATION

Q2 2026

Earnings Report Update

**PREPARED BY:
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Company Overview

Microsoft Corporation is a global technology leader developing software, cloud services, and devices. Its core businesses span productivity and enterprise software (Microsoft 365, Dynamics, LinkedIn), cloud and server solutions (Azure, GitHub, enterprise services), and personal computing, including Windows, Surface devices, gaming, and digital advertising, serving consumers and enterprises worldwide.

GUIDANCE

For Q3 2026, the company expects revenue of \$80.65-\$81.75 billion.

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We are only at the beginning phases of AI diffusion and already Microsoft has built an AI business that is larger than some of our biggest franchises," said Satya Nadella, chairman and chief executive officer of Microsoft. "We are pushing the frontier across our entire AI stack to drive new value for our customers and partners.

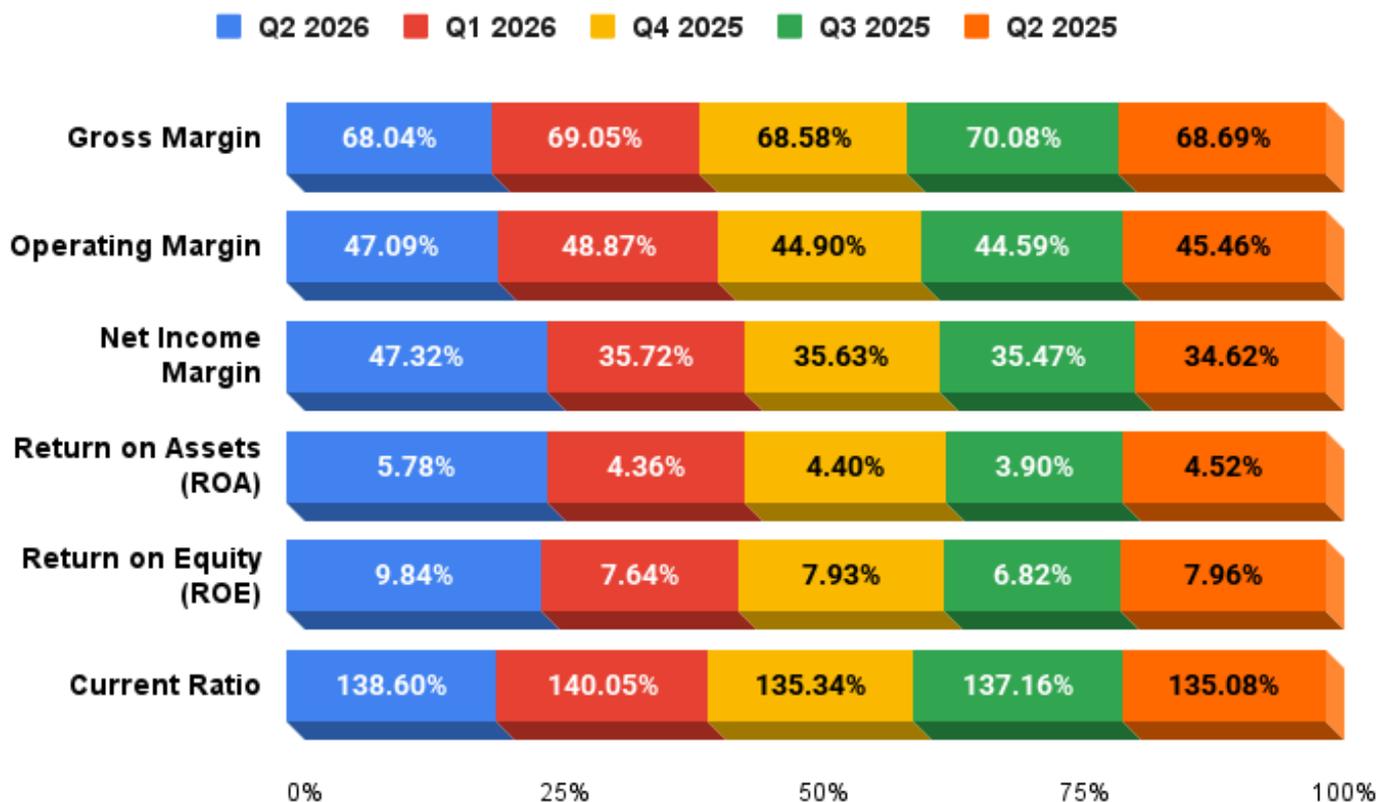
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CEO's Commentary

Expectation Analysis

USD (\$)	Q2 2026	ESTIMATE	BEAT/MISS
REVENUE	81.27B	80.30B	1.20%
EBITDA	47.50B	47.40B	0.10%
EBIT	38.28B	36.50B	4.90%
EPS (adjusted)	4.14	3.92	5.70%

Margin and Efficiency Analysis



Revenue/Profitability Summary				
Million USD(\$), except EPS	Q2 2026	QOQ	YOY	
Revenue	81,273.00	4.63%	16.72%	
Gross profit	55,295.00	3.10%	15.60%	
Operating Income	38,275.00	0.83%	20.92%	
Income before tax	48,246.00	40.65%	64.30%	
Net Income	38,458.00	38.60%	59.52%	
EPS	5.16	38.71%	59.75%	
Cost/Expenses Summary				
Million USD(\$)	Q2 2026	QOQ	YOY	
Cost of revenue	25,978.00	8.05%	19.17%	
Research and development	8,504.00	4.39%	7.41%	
Sales and marketing	6,584.00	15.17%	2.24%	
General and administrative	1,932.00	6.98%	5.98%	
Income tax	9,788.00	49.34%	86.19%	
Cash Flow Summary				
Million USD(\$)	Q2 2026	QOQ	YOY	
Net cash from operations	35,758.00	-20.64%	60.41%	
Net cash used in financing	-17,617.00	-49.31%	-56.69%	
Net cash used in investing	-22,705.00	34.30%	-60.89%	
Closing cash balance	24,296.00	-15.78%	38.98%	
Segment Performance				
Million USD(\$)	Q2 2026	% Revenue	QOQ	YOY
Productivity & business processes	34,116.00	41.98%	3.32%	15.89%
Intelligent cloud	32,907.00	40.49%	6.51%	28.82%
More personal computing	14,250.00	17.53%	3.59%	-2.74%
Key Items of Financial Position Summary				
Million USD(\$)	31st Dec 2025	YTD	QOQ	YOY
Current assets	180,190.00	-5.72%	-4.69%	22.51%
Non-current assets	485,112.00	13.38%	8.46%	25.41%
Total assets	665,302.00	7.48%	4.55%	24.61%
Current liabilities	130,005.00	-7.94%	-3.70%	19.40%
Non-current liabilities	144,422.00	7.53%	4.44%	18.07%
Total liabilities	274,427.00	-0.40%	0.42%	18.70%
Total equities	390,875.00	13.80%	7.66%	29.13%

Performance Highlights

- Microsoft delivered a strong Q2 2026 performance, with revenue rising 17% year-on-year to \$81.3 billion (15% constant currency), driven primarily by accelerated cloud and AI adoption across enterprise and consumer workloads.
- Operating income increased 21% year-on-year to \$38.3 billion, reflecting operating leverage from higher cloud mix, disciplined cost management, and scale benefits despite elevated AI-related investments.
- GAAP net income surged 60% year-on-year to \$38.5 billion, supported by stronger operating performance and favorable investment-related gains, while non-GAAP net income grew a solid 23%, underscoring core earnings momentum.
- Microsoft Cloud revenue crossed \$51.5 billion, growing 26% year-on-year (24% constant currency), highlighting sustained enterprise demand for Azure, data, security, and AI-driven cloud services.
- Intelligent Cloud segment revenue grew 29% year-on-year to \$32.9 billion, led by Azure and other cloud services, which expanded 39% year-on-year (38% constant currency), reflecting strong AI workload migration and consumption growth.
- Productivity and Business Processes revenue rose 16% year-on-year to \$34.1 billion, driven by Microsoft 365 Commercial cloud growth of 17%, Microsoft 365 Consumer cloud growth of 29%, and Dynamics 365 growth of 19%.
- LinkedIn revenue increased 11% year-on-year, supported by steady hiring activity and engagement, while Dynamics 365 benefited from continued demand for cloud-based ERP and CRM solutions.
- More Personal Computing revenue declined 3% year-on-year to \$14.3 billion, as weaker Xbox content and services (down 5%) offset modest growth in Windows OEM and Devices and a 10% increase in search and news advertising.
- Gross margin expanded meaningfully, with operating margin supported by higher-margin cloud services and improved infrastructure efficiency, even as AI-related depreciation and operating costs increased.
- Capital returns remained robust, with Microsoft returning \$12.7 billion to shareholders through dividends and share repurchases in the quarter, up 32% year-on-year, reflecting strong cash generation and balance sheet flexibility.

Concerns Raised

- Elevated capital expenditure and infrastructure spending to support AI diffusion pose near-term margin risks, particularly if revenue realization from AI services lags the pace of investment.
- Heavy reliance on Azure and cloud growth concentrates earnings sensitivity to enterprise IT spending cycles and competitive pressure from hyperscale peers, potentially impacting growth durability.
- Weakness in the More Personal Computing segment, especially gaming-related revenues, highlights exposure to discretionary consumer spending and ongoing platform competition.
- Regulatory scrutiny, data privacy risks, AI governance concerns, and geopolitical uncertainties remain structural risks that could affect costs, operational flexibility, and long-term valuation multiples.

OUR INSIGHT

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Microsoft delivered a strong Q2 2026 performance, underpinned by robust AI integration and continued momentum in Azure and Microsoft Cloud. OpenAI partnerships contributed significantly to earnings, while cloud adoption accelerated across enterprise and consumer segments. However, investor caution emerged due to elevated AI spending and signs of slowing cloud growth, which weighed on shares post earnings release. Long-term, Microsoft's leadership in AI and cloud services positions it for sustainable growth, but key watch-outs include execution risks, competitive pressures from other Big Tech, and the capital-intensive nature of its AI investments.

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